



AlternativChronicle

OMG! So What's Coming Next for Investors?



By George M. Klar.....President, Alternativ Solution Inc.

Inside this issue:

OMG! So What's Coming Next for Investors?

Pg
1

ASI — What we do:

Alternativ Solution Inc. (ASI) offers consulting services on capital markets to institutional clients. We deal in topics ranging from investment strategy, risk management, asset allocation, manager selection and manager assessment.

Our recent engagements include development of investment policy, searches for money managers, investment strategy (active vs. passive), and alternatives such as infrastructure, real estate and smart beta.

ASI also offers Trustees and Board members with financial education or training.

Mr. Klar is a faculty member in the Finance area at the Schulich School of Business and is a senior advisor to York University's \$2.2 billion pension plan.

....Cheers, GMK

As I write this article, many new developments have taken place, the most notable being the U.S. Presidential election. The outcome shocked people everywhere.

Since the results were announced and Trump became President-elect, equity markets and the US dollar have soared to new highs. There's a growing 'optimism' about the U.S. economy.

So what does this all mean for investors? And what is the impact for Canadian investors?

Before delving into this subject, it is important to note we just witnessed a sharp U.S. political shift to the right. Actually, this seems to be a global phenomenon and has occurred elsewhere already (Hungary for example).

The swing right is also punctuated by the UK's recent Brexit vote. Expect more right wing governments to pop up in more countries.

Why the sudden shift? It's basically public disenchantment with the status quo. Ten years after the financial crisis, there are still many who remain badly affected. Right wing groups are hostile to globalization and embrace protectionism. The world unfolding seems far less trade friendly, increasing restrictive to human mobility, and less open to differing ideas, values or concepts.

The first priority under the new Trump administration is improving the welfare of U.S. citizens. Trump ran on a "Make America Strong Again" slogan. Fuller employment is a key objective and means aggressive fiscal (and monetary) tools will be used. So fiscal deficits are likely to rise. President-elect Trump has indicated that large infrastructure improvements are high on his agenda. Generally, this isn't a bad idea as the U.S. (like other nations) has



under-invested in this important area. Trump has also said previously negotiated trades deals will be scrapped. From a broad economic perspective, trade protectionism is problematic. It is especially worrisome for Canada since we rely so heavily on two-way trade with the U.S.A.

Trump also wants to lower corporate and personal tax rates while reducing the overall size of government. It could lead to less regulatory oversight and a focus on national security and defence.

Impact on Rates:

Everyone knows we live with unusually low interest rates today. The 35 year campaign to reduce yields

has finally reached its nadir. Yields can only rise, and they did after the election. With deficits and inflation expectations rising, investors should expect yields to ratchet up further. This is bad for bond prices in the near term.

Impact on US Equities:

Generally, higher bond yields are bad for equity valuations. However, lower tax rates, higher U.S. investment and trade protectionism might boost domestic profits. Also, there are trillions in U.S. profits sitting overseas awaiting repatriation. If these funds can return home, they could be invested to help drive increased productivity.

Impact on Canadians:

Not good. Ideologically, Trudeau and Trump will clash. Our trade deals might be re-opened and Canadian firms could face a tougher time accessing U.S. markets. The \$CAD will remain weak.

Conclusions:

In my view, the period we've entered might be categorized as the "The New Abnormal". Expect lots of change. Some for better, some for worse and some just because someone wants it to happen. Although scary, it also offers opportunities. Canadians have always lived beside a goliath. Over the next few years, that giant will take the form of Donald Trump. ■